- Developing or leasing POPs—locations at which long-distance traffic is transferred between the IXC and the LEC's local or regional network;
- Building or leasing transport from the backbone to at least one POP in each of the LATAs; and
- Customized software to allow the whole network to work together.

Employing the network to provide even basic 1 + long-distance service (let alone 800, calling card and more advanced business services) also requires:

- Order taking systems (For example, WorldCom has stated that it has its own electronic data interchange system to automate the process for its wholesale customers.);
- Billing systems—computers and software to generate billing information needed by retailers;
- Access agreements and facilities to connect POPs to the LEC network. The connections to LEC networks must be made directly or (via arrangements with other carriers) to originate and terminate calls to at least the 800 LEC tandem switches throughout the country and directly or through those tandems to about 24,000 LEC end offices23 to provide even basic long-distance service.
- Operator services.

31. Thus, the entrants must go through a time-consuming, costly process before they can weave the intricate fabric of the network and associated service components needed to compete with WorldCom for wholesale long-distance service. (See Attachment 1 for a chronology of the time-consuming process behind the emergence of the WilTel network that now serves as the basis for WorldCom's wholesale service.) Until entrants can accomplish this and until they can achieve traffic volumes and network coverage close to WorldCom's, they will have to rely on more resale and leased facilities. At lower traffic volumes, firms building their own facilities would have higher costs per unit because the fixed costs would be spread over fewer minutes of use. However, firms like WorldCom with large enough volumes can justify moving to leased facilities from resale or from leased facilities to their own facilities because they can spread the fixed costs over more minutes of use. Thus, entrants' services and facilities will cost more (and offer less control) than WorldCom's do now. Further, the entrants' offerings are likely to be more costly than WorldCom's wholesale service for at least the next several years. Thus, as we discuss more fully in the following sections, resellers seeking to use the entrants' inputs are likely to find that their costs are higher than the price that WorldCom would have charged absent the merger.

[23] Local Exchange Routing Guide (LERG), December 1997.

3. Entrants are highly unlikely to match WorldCom's service package or costs soon enough to deter MCI/WorldCom from raising wholesale rates.

32. The evidence strongly suggests that WorldCom has significant cost and service advantages that could not be achieved by any of the entrants in time to avert a potentially significant wholesale price increase.

- It took WorldCom many years to reach the point where it offers the current package of wholesale services on a nationwide basis.
- WorldCom has exhibited unique growth, in large measure through a series of acquisitions that allowed it to capture about three times more of total wholesale and retail revenues than the next largest competitor by 1996.[24]
- Even so, although WorldCom (including all of its current long-distance wholesale and resale subsidiaries) had almost as many fiber route miles in 1990 as it did in 1996, WorldCom needed another four years (until 1994) to reach half its current (1997) wholesale revenues.
- The entrants are much smaller than WorldCom and are highly unlikely to match WorldCom's network size in the next two to three years.
- Thus, it is clear that the entrants' costs are likely to be higher than WorldCom's.

a) WorldCom took many years to develop its current wholesale service package.

33. Although it is difficult to identify from publicly available data precisely when WorldCom (or the companies that now constitute WorldCom) developed its current wholesale service capabilities, a review of WorldCom's financial filings and press releases suggests both that: (1) it has developed them over a lengthy time period; and (2) that they now constitute an impressive package.

34. As described in Attachment 1, construction on the WilTel network, which serves as the basis for WorldCom's wholesale services, started in January 1986, but WilTel did not become a significant factor in the switched long-distance market until the early 1990s. This was the case even though the original developer of that network—Williams—was able to use its own existing rights of way and decommissioned pipelines to place the fiber cable and it developed substantial parts of its backbone network by acquiring other carriers' fiber routes and switched service operations.
According to LDDS' 1993 annual report:

> LDDS also has agreements with a company that installs, operates and maintains certain LDDS data processing, telecommunications and billing

[24] Long Distance Market Shares Fourth Quarter 1997, FCC, March 1998, Table 3.1.

systems. The agreements expire in 2000 and are renewable on an annual basis thereafter.[25]

35. In its 1994 annual report, WorldCom stated that:

> WilTel was the first interexchange carrier to offer a public frame relay service and maintains a leadership position in frame relay data transmission. [The] WilTel owned network of 10,000 miles of fiber and 1,000 miles of microwave transmission facilities, combined with LDDS' 1,300-mile fiber optic and 3,000 mile microwave network, gives WorldCom ample capacity to serve even the largest customer and support continued growth.[26]

> The Company owns or leases computerized network switching equipment that routes all of its customers' long-distance calls. The Company presently maintains approximately 50 digital switching centers. The Company's state-of-the-art digital switching equipment is fully interconnected with digital transmission lines. The Company has upgraded its entire network with the addition of SS7 common channel signaling, which increases efficiencies by eliminating connect time delays and provides "look ahead" routing. In addition to networking, the Company's switching equipment verifies customers' pre-assigned authorization codes, records billing data and monitors system quality and performance.[27]

36. According to WorldCom's 1995 annual report WorldCom had several unique systems important to wholesale providers:

> In the rapidly growing wholesale market, WorldCom, Inc.'s switched revenues and traffic increased 26 percent and 47 percent, respectively, compared with 1994 pro forma results. The company's continuing success in the wholesale market derives from both the healthy growth in this burgeoning market segment and WorldCom, Inc.'s well developed ability to serve the needs of carrier and reseller customers.

> Indicative of our leading position in the wholesale market, we signed a number of large reseller agreements in 1995, including the largest long-distance resale commitment in history. In addition, in August we marked our 10 millionth Electronic Data Exchange (EDE) transaction. EDE is a system that allows our carrier and reseller customers to electronically provision customers through a computer software program.

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[25] LDDS 1993 Annual Report, December 31, 1993, p. 31.

[26] LDDS 1994 Annual Report, December 31, 1994, p. 9.

[27] LDDS 1994 Annual Report, December 31, 1994, p. 7.

> Our commitment to the carrier market was reflected in the introduction of an innovative product called Transcend. In an industry first, the product effectively separates local and long-distance bill components. This new product provides carrier customers important new tools to target their products in regions with optimum revenue and profit potential.
>
> [using its] advanced data services and an extensive international network, WorldCom, Inc. can offer complete packages of telecommunications services to meet the needs of even the largest, most demanding business customers. ... (From Bernard Ebbers' Message to Shareholders, March or April 1996)[28]
>
> To keep track of it all, WorldCom, Inc. possesses the world's most advanced telecommunications monitoring system that oversees the functional integrity of every millimeter of the network.[29]

37. In addition, GTE has found that: WorldCom's "billing systems capabilities are unique to the carrier market and their support platforms are able to service customer accounts (ANIs) with ease. These are mature processes built specifically for resale and unique in the industry."[30] In particular, WorldCom offers: electronically transmitted call detail records for next-day billing and customer service. These comprehensive data include detailed calling characteristics, as well as cost data for originating access, long-distance transport and terminating access costs. The call detail includes information on originating and terminating LEC and switch location coordinates.

b) The entrants are much smaller and are not likely to grow fast enough to enjoy WorldCom's economies of scale within the next two to three years.

38. In comparison with WorldCom, the entrants to which Drs. Carlton and Sider point are much smaller. Exhibits 2 and 3 summarize 1997 wholesale and total long-distance service revenues, respectively for WorldCom and the entrants (in operation in 1997) who are building new fiber optic backbones.[31] Given how much smaller they are than WorldCom, it is highly unlikely that entrants will match the long-distance traffic volumes that WorldCom has now for at least the next several years, and it is all but impossible that their volumes will approach WorldCom's likely traffic volumes two to three years from now.

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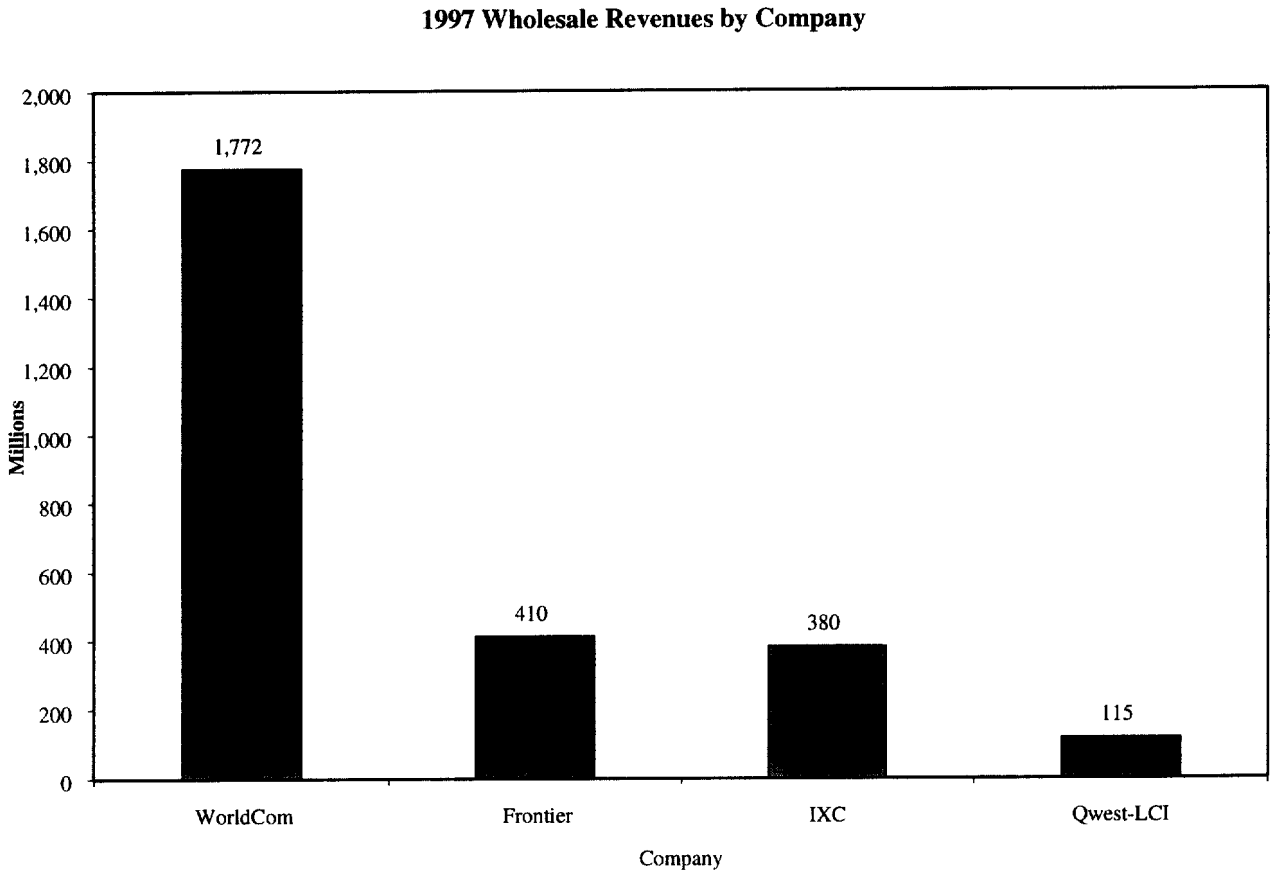
[28] WorldCom Annual Report 1995, Message to Shareholders, March 1996; emphasis added.

[29] WorldCom 1995 Annual Report (page number not available); emphasis added.

[30] Testimony of Debra R. Covey in Colorado Docket No. 97 A-494T.

[31] We use revenue data as a proxy for volumes because the latter are not available.

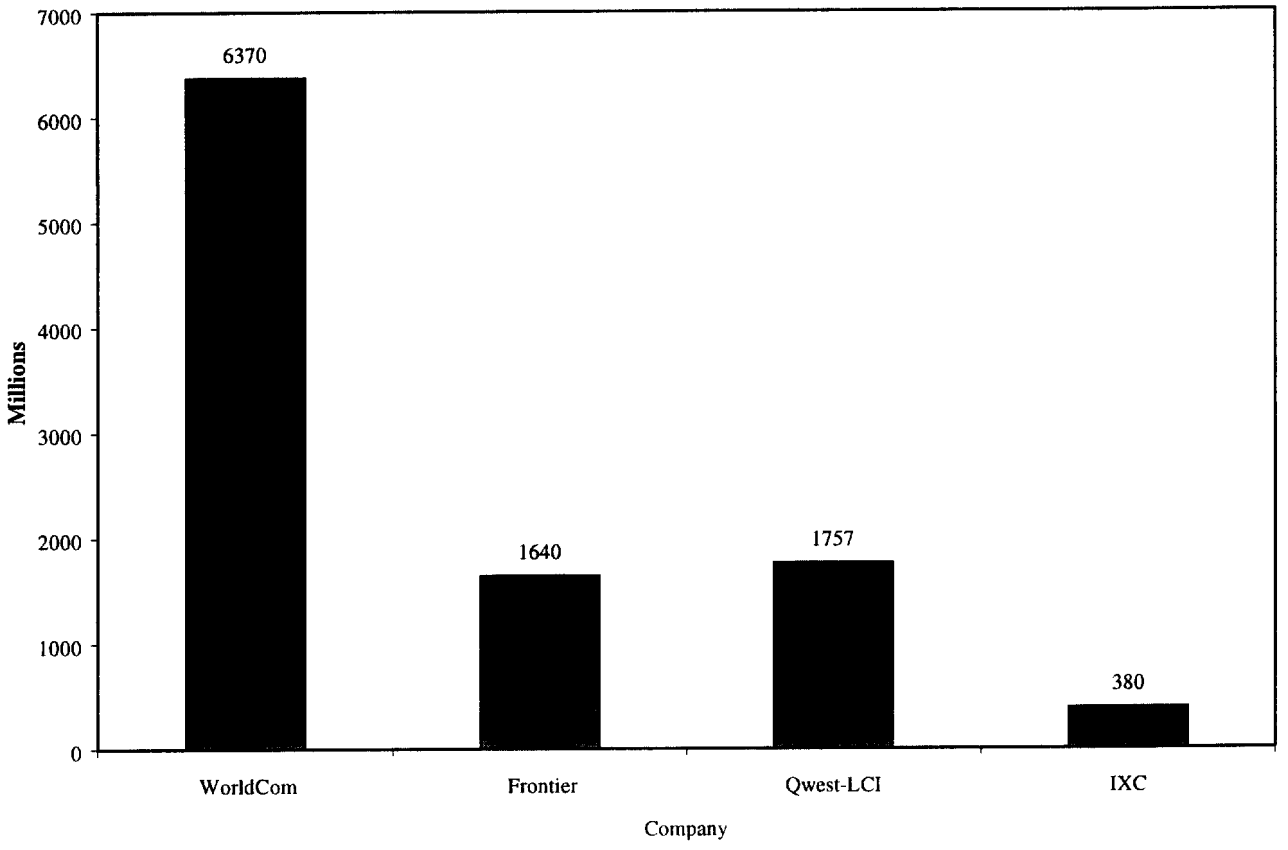
Exhibit 2



1. Data for WorldCom, Frontier and IXC are from Frost and Sullivan estimates. We adjusted the WorldCom 1997 figure to remove international settlement payments. To make this adjustment we used the information on the percent of "carrier services" revenues from a Yankee Group report. (U.S. Business Long-Distance Market: Calm Before the Storm, Telecommunications Vol. 12, No. 13, Dec 1997).
2. We estimated the Qwest-LCI figure as the sum of the $56 million in wholesale long distance revenues from Qwest's 1997 10-K and estimated LCI wholesale revenues. We estimated LCI's wholesale revenues by multiplying the total long distance revenues from its 1997 10-K times Frost & Sullivan's estimate of the percentage of LCI's revenues from wholesale (i.e., $1.642 billion * 4%).

Exhibit 3

1997 Long Distance Revenues by Company



1. Data for WorldCom, Frontier, and IXC are Frost and Sullivan estimates.

2. Qwest-LCI revenues are from their 1997 SEC 10-K forms. Qwest's $115 million in long distance service revenues exclude revenues from network construction.

- Qwest's wholesale (carrier's carrier) revenues (even accounting for the LCI merger by including LCI's wholesale revenues with Qwest's) are only 6 percent as large as WorldCom's.[32] A *Business Week* article reported that "only 16.5% of [Qwest's] revenues came from telecom business" and "Qwest has made the year [1997] look terrific by reporting 1997 revenues that have little to do with its telecom activities---which have been losing money."[33] Even if Qwest finishes its fiber backbone on schedule, by the 3rd quarter of 1999, and increases its wholesale long-distance revenues at twice WorldCom's 1990-to-1996 growth rate, Qwest's wholesale revenues in 2000 would be only about 13 percent of WorldCom's 1997 wholesale revenues. Further, it would take the merged company about seven years to reach WorldCom's current wholesale revenues. Finally, assuming that Qwest/LCI continue to grow their total revenue at their own historical growth rates until 2000, while WorldCom continues to grow at its historical average growth rate, Qwest/LCI would only reach less than one half of WorldCom's total long-distance revenues by the year 2000. (Note also that Qwest has focused more on data and Internet services than on switched voice services, although the merger with LCI may signal a change in Qwest's strategy. Of course, the merger with LCI, also suggests that Qwest may be more interested in selling retail than wholesale services.)

- IXC's wholesale revenues are only about 21 percent of WorldCom's. IXC recently predicted that its total (wholesale + retail) revenues will reach about $1 billion by 2000[34] or only about one half of WorldCom's 1997 wholesale revenues. IXC is currently in the process of acquiring Network Long Distance, Inc. (NLD), and even with that acquisition, IXC's total (wholesale + retail) revenues will reach only about $1.14 billion by 2000.[35]

- Frontier's wholesale revenues are only 23 percent of WorldCom's. Furthermore, FCC data show that Frontier has not been nearly as successful as WorldCom in the long-distance market. Frontier's total long-distance revenues were about four times WorldCom's in 1989 ($438 million vs. $110 million), yet by 1996 Frontier's long-distance revenues were only about one-fourth WorldCom's ($1.64 billion vs. $6.37 billion); thus, WorldCom has grown much faster than Frontier. Further, the MCI/WorldCom economists present no evidence that shows that Frontier—even if its share of the Qwest backbone route is completed by the third quarter of 1999—would be able to match WorldCom's size or cost advantage in time to offer wholesale services that could constrain WorldCom/MCI from raising wholesale rates by a significant amount. If, despite its much slower growth record than WorldCom, Frontier grows at a rate closer to WorldCom's historical (1990-to-1996) growth rate,

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[32] For 1997, Qwest's construction revenues were $581.4 million, while its wholesale revenues were only $55.6 million., Qwest's 10-k for fiscal year ended December 1997, pp.11-15.

[33] Marcial, Gene " Pick Up This Call. Hang Up That One", Business Week, February 23, 1998, p. 108.

[34] "Not Even Turtles Can Slow IXC Nationwide Fiber Buildout," Fiber Optic News, June 9, 1997, p. N/A.

[35] NLD's total revenues, as reported by Hoovers, was $59.8 for 1997. We used the average 4-year (1993 to 1997) growth rate for Frontier and Qwest (hybrid carriers) to estimate NLD's 1999 revenues, and WorldCom's growth rate to estimate NLD's revenues in 2000 based on the 1999 estimate.

it would take Frontier 6 years to equal WorldCom's current 1997 wholesale revenues. In addition, if instead Frontier continues to grow at its own historical (1993-to-1997) rate and WorldCom continues to grow at its own rate, then Frontier would have only about one third of WorldCom's total revenues in 2000.

- Level 3 announced that it will not begin to construct its network until the second half of this year and that it will take five years to complete.[36] Furthermore, Level 3's announced strategy has been to focus exclusively on packet networks and Internet protocol, which, as they admit, is ill suited to voice long-distance service.[37]
- According to Drs. Carlton and Sider, Williams "... announced an investment of $2.7 billion for construction of a 32,000 route-mile system to be completed by year-end 2001, with about 20,000 route miles in service by the first quarter of 1999."[38] Williams' claim that it will deploy a 20,000 mile fiber backbone by the end of the first quarter of 1999 apparently rests on the assumption that about 11,000 miles of that network will be composed of a single fiber from the WorldCom (Wiltel) network[39] over which Williams argues it has control for multimedia services, including Internet applications. However, Williams evidently cannot use that fiber to carry conventional voice or data traffic. According to Williams' March 1998 lawsuit against WorldCom for impeding Williams' use of the single fiber it retained from the WilTel network:

> Williams Communications is restricted from using the Vyvx SUSA System to engage in the transmission of voice or data signals, but may use [it]... for inter alia, video and multimedia applications.... Thus, Williams Communications is prohibited from transmitting cellular, personal communications services applications (e.g., paging) and long-distance data or voice applications, unless the data/voice component of a transmission is incidental to the video, radio or related multimedia aspect of the application.

39. Williams' complaint also says that WorldCom's objections to Williams' use of the Vyvx fiber for Internet use "are raised for purposes of jeopardizing and thwarting Williams Communications' present and future relationships with Internet

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[36] "Frequently asked Questions" obtained from Level 3 web site on April 22, 1998, http://www.l3.com/qanda.html.

[37] See pp. 30-31of our initial affidavit, and Seth Schiesel, "Peter Kiewit Sons to Build National Fiber Optic Network," *The New York Times*, January 21, 1988, p. D-10.

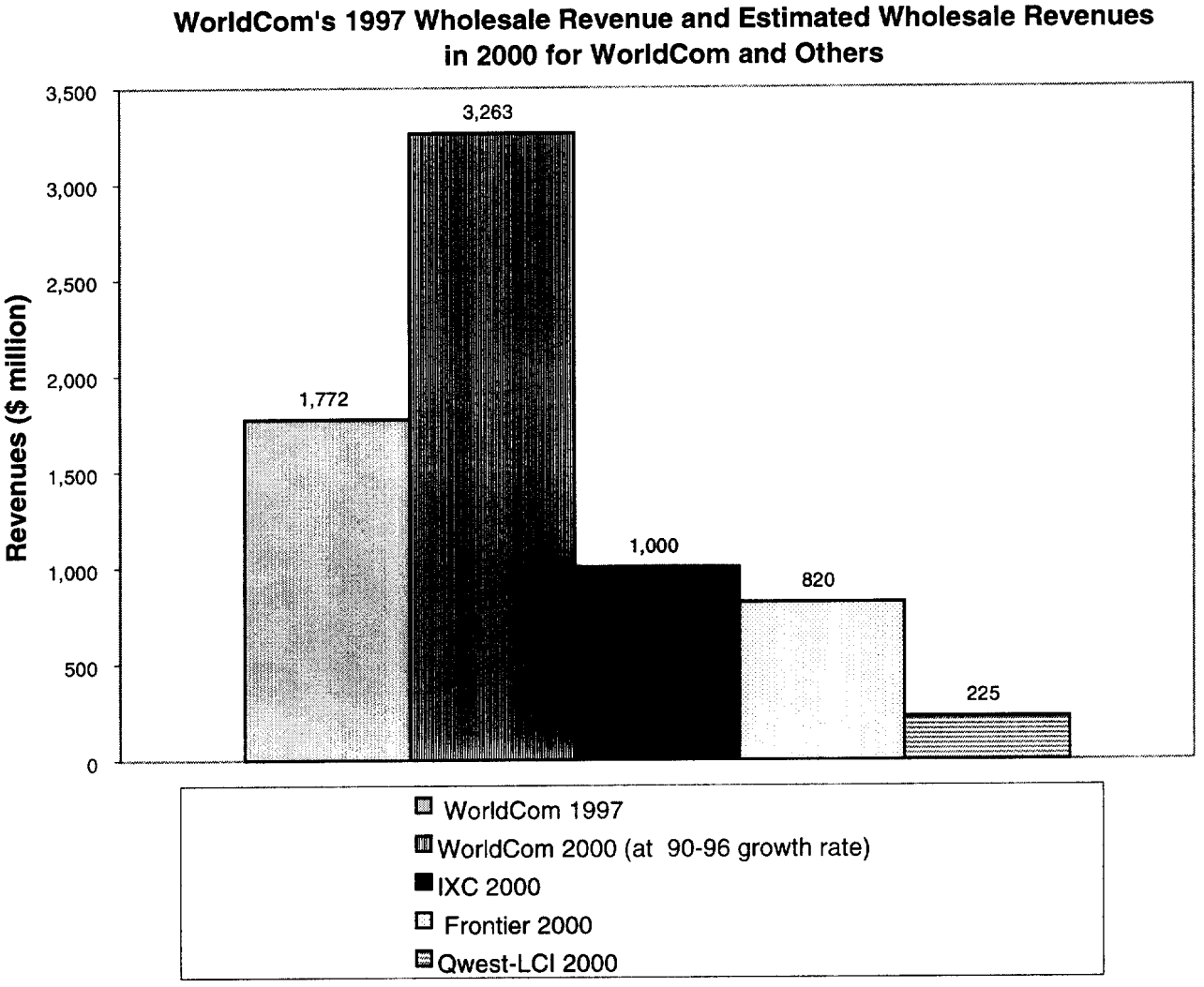
[38] Carlton and Sider. at para. 15, footnote omitted.

[39] "Williams returns to its roots with Launch of Wholesale Network Services for Nationwide Market", Jan 5, 1998, obtained from Williams web site http://www.twc./news/rell38.html "Williams sold all but one strand of its 11,000-mile network to WorldCom on Jan, 1995..[together] with the existing 11,000-mile network, Williams will have an 18,000-mile network in operation by the beginning of 1999." Since the publication of this story, Williams has stated that it will have a 20,000-mile network ready by the end of the first quarter of 1999.

providers....with the purpose of sabotaging Williams Communications' entry and growth of such business relationships."

40. Exhibit 4 summarizes the potential wholesale long-distance revenues for WorldCom, IXC, Qwest/LCI and Frontier for 2000 based on the above discussion. (We do not present data for Level 3 and Williams because they do not have any historical revenue data on which to base the estimates, and because they are focusing on IP and multimedia services, rather than the traditional switched wholesale long-distance services needed by resellers. Qwest has also been focusing on IP services, although its pending acquisition of LCI suggests that it is also interested in switched services.) While expected future long-distance service volumes are not readily available for these carriers, on the basis of the above discussion and as illustrated in Exhibit 4, we believe the entrants are extremely unlikely to grow large enough to capture the significant scale economies of WorldCom within the next two to three years.

Exhibit 4



1. We calculated WorldCom's 1997 wholesale revenues as described in Exhibit 2. We estimated WorldCom's revenue for 2000 based on the 1997 figure and WorldCom's average annual growth from 1993 to 1997.
2. IXC's 2000 wholesale revenue is based on a forecast provided by the company. This assumes all of IXCs revenues were wholesale revenues when the company made its forecast in "Not Even Turtles Can Slow IXC Nationwide Fiber Buildout," *Fiber Optic News*, June 9, 1997, p. N/A. Frost & Sullivan data indicate that all of IXC's 1997 revenues were from wholesale services.
3. We estimated Frontier's 1999 wholesale revenue from its wholesale revenues for 1997 and its annual average growth from 1993 to 1997. For the growth from 1999 to 2000, the first period in which the company is scheduled to operate with a completed fiber backbone, we grew its wholesale revenue at twice WorldCom's historical rate.
4. We estimated Qwest-LCI's 1999 wholesale revenue from their combined wholesale revenues for 1997 and their annual average growth from 1993 to 1997. For the growth from 1999 to 2000, the first period in which the company is scheduled to operate with a completed fiber backbone, we grew its wholesale revenue at twice WorldCom's historical rate.

4. Size matters.

41. Differences in network size and traffic volumes have substantial effects on unit costs. The higher the traffic volumes, the more likely it is that the carrier can make use of lower-cost, high-capacity circuits and direct connections and the more likely it can build its own facilities. For example, carriers with larger volumes can justify purchasing either higher capacity access trunks from LECs or other carriers or, in some cases, installing their own facilities. Similarly, they will be able to use more of their own long haul facilities and/or higher-capacity, lower-cost leased facilities to connect their POPs to their fiber backbones and in the backbone routes themselves, in place of using other carriers' (higher-cost) WATS services to originate or terminate their calls. Conversely, as explained in the next section, entrants with lower volumes than WorldCom will find themselves at a substantial cost disadvantage.

a) Entrants will not achieve network economies equivalent to those benefiting WorldCom; thus, entrants' costs are likely to be higher.

42. The entrants will have higher costs because they will not be able to take advantage of many savings that will be available to WorldCom, even without the merger. In particular the entrants are likely to have higher:

- **Offnet Costs**—Since entrants will have smaller networks and lower traffic volumes, entrants will use a greater proportion of leased capacity in their long-haul network and for off-backbone transport (to connect POPs to their backbone fiber routes); and entrants will use lower-capacity, longer-haul and/or shorter-term leased facilities.
    - Entrants will need more leased capacity in their long-haul network and to connect POPs to their backbone fiber route. According to WorldCom Treasurer, Sunit Patel, the merger would generate cost savings by allowing the company to carry more traffic on owned, rather than leased facilities. Thus, each company anticipates that it: "will be able to reduce its projected offnet costs after the merger by moving its offnet capacity that is on the long-distance networks of other carriers to MCI's [or WorldCom's] long-distance network."[40]
    - Offnet costs are also higher for entrants with lower-capacity, longer-haul and/or shorter-term leased facilities.

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[40] Affidavit of Sunit Patel, In the Matter of Applications of WorldCom, Inc. for Transfers of Control of MCI Communications Corporation, filed 3/20/98, CC Docket No. 97-211, (cited below as Patel Affidavit), see paras. 8 and 9.

It is important to note that such private pecuniary economies to WorldCom and/or MCI from reduced external fees do not represent social efficiency gains from the merger. That is, although the parties may reduce their out-of-pocket costs, this is not the same as genuine resource savings that would be realized from an increase in productive efficiency. Nevertheless, the need to purchase off-net services from other carriers does increase the entrants' costs compared to those of firms with larger networks.

- **Costs for leased POPs**—entrants must use more POPs leased from the larger IXCs, which will raise entrants' cost and potentially reduce the entrants' control over the network. For example, in the left (western) two LATAs of Exhibit 1, the larger carrier has two POPs—one in each LATA—while the entrant has its own POP in only one of the two western LATAs. As a result, the entrant must use a leased line and a POP leased from the larger IXC.
- **Switched Access costs**—entrants with less volume than WorldCom will have higher switched access costs because they will have:
  - fewer Direct End Office Trunk (DEOT) connections from their POPs to LEC end offices (According to WorldCom's Treasurer, "...WorldCom and MCI reduce their switched access costs when they [have enough traffic to] lease a DEOT route."[41] Thus, entrants with less volume than WorldCom will have higher switched access costs because they will have fewer opportunities to use DEOTs.);
  - fewer opportunities to use higher-capacity access transport—e.g., they will be less able to use DS3 trunks instead of DS1s or multiple DS3s instead of single DS3s;
  - fewer opportunities to use their own facilities to connect from end offices and tandems to their POPs; and
  - fewer POPs in a given LATA, thereby increasing the length and cost of facilities to connect to LECs' switches.
- **Dedicated Access costs**—Entrants will not be able to take advantage of a number of savings that WorldCom can as a result of its local access facilities. MCI expects reduced access costs from substituting WorldCom (and Brooks) local facilities in place of facilities leased from LECs. For example:
  - MCI expects reduced "entrance facilities costs"—i.e. costs to lease lines from an LEC to connect the LEC wirecenter to WorldCom's or MCI's POPs—via greater use of WorldCom's own access facilities from LEC serving wire centers to WorldCom's and MCI's POPs. Although he does not quantify the savings, Mr. Patel suggests that they could be large: "After the merger, WorldCom's local network could provide a significant portion of MCI's entrance facility capacity."[42]
  - WorldCom and MCI expect reduced costs for Dedicated Access Lines (DALs) and Local Loops (LLs), currently leased from LECs to complete private line circuits, as a result of MCI being able to use the DAL and LL capacity on the WorldCom and Brooks Fiber networks.

43. If MCI can reduce its access costs by using WorldCom's local facilities, then the entrants' access costs are clearly likely to be higher than WorldCom's for these facilities. Note, however, that these savings to the merged company may not result in genuine economic efficiencies, because the underlying cost of using WorldCom's local facilities may be no lower than the costs of using LEC facilities.

[41] Patel Affidavit at 16, 17 and 18.

[42] Patel Affidavit at 14.

- **Signaling system costs**—These costs are likely to be higher for entrants than for WorldCom because they will be more likely to lease SS7 facilities and receive smaller discounts for use of other carriers' signaling systems.
- **Costs for use of other carriers' WATS services**—According to Mr. Patel MCI/WorldCom can achieve savings to originate or terminate traffic to MCI or WorldCom customers on:
  - In-WATS costs – incurred when an 800 call to an MCI or WorldCom customer is originated on another long-distance carrier's network. WorldCom's savings estimates "were based in part on WorldCom's anticipation that it and MCI will be able to reduce their projected In-WATS costs after the merger by optimizing their In-WATS rates with other long-distance carriers and by taking advantage of MCI's additional facilities and relationships with other carriers." Further savings could come from "taking advantage of its greater purchasing power and negotiating lower rates."[43]
  - Domestic WATS costs – payments to another IXC to terminate a call within the continental United States or when there is overflow traffic. These costs are expected to decline after the merger by "optimizing their domestic WATS rates with other long-distance carriers."
  - Non-contiguous WATS costs – Same as domestic WATS except that the call is terminated outside the lower 48 states (*i.e.*, Canada, Hawaii, or the Virgin Islands).

44. If WorldCom and MCI can benefit from such savings, then we would expect entrants to have higher WATS costs than WorldCom.

- **Directory assistance fees paid to LECs**—WorldCom expects savings as a result of higher volumes and, thus, greater bargaining power.[44] Conversely, smaller carriers would be expected to have higher directory assistance fees.
- **Debit card payments**—to a third party vendor to process debit card calls. WorldCom intends to move its calling card operations to MCI's "debit card platform." "Where MCI uses a third-party vendor to process some of its debit card services, WorldCom anticipates that the combined company could also achieve debit card savings by taking advantage of its greater purchasing power and negotiating lower rates for outside vendor resources." Thus, we would expect entrants to have higher debit card costs.

45. As explained in note 40 above, savings to the merged company from greater bargaining power do not represent production efficiencies. Further, to the extent that the merger increases WorldCom's market power, these pecuniary savings to the merged companies would not necessarily translate into rate reductions to consumers. To the

[43] Patel Affidavit, para 20.

[44] Patel Affidavit , paras. 25 and 26.

contrary, as we explained in our initial affidavit the merger is likely to result in higher prices.[45]

46. Mr. Patel also states that there will be savings in local operations (e.g., from MCI and WorldCom being able to share the use of their local networks to provide local service). However, we do not address the significance of those savings here.

b) WorldCom has reported achieving network economies of scale indicating that entrants will be at a substantial cost disadvantage.

47. Prior to the merger announcement, in at least one SEC filing, WorldCom itself recognized that: (1) the costs of access and transport are major components of its network costs and major drivers of its profit; and (2) it benefits from economies of scale.

> The Company's profitability is dependent upon, among other things, its ability to achieve line costs that are less than its revenues. The principal components of line costs are access charges and transport charges. Access charges are expenses incurred by IXCs for accessing the local networks of the LECs in order to originate and terminate calls and payments made to PTTs to complete international calls made from the U.S. Transport charges are the expenses incurred in transmitting calls between or within LATAs.
>
> ...the Company cannot predict what effect continued regulation and increased competition between LECs and other IXCs will have on future access charges. However, the Company believes that it will be able to continue to reduce transport costs through effective utilization of its network, favorable contracts with carriers and network efficiencies made possible as a result of expansion of the Company's customer base by acquisitions and internal growth.[46]
>
> ...Switched retail revenues and traffic rose 18% and 22% respectively. Wholesale revenues and traffic rose 26% and 47%, respectively....
>
> Line costs [principally "access charges and transport charges"] as a percentage of revenues decreased to 54.7% in 1995 compared to 65.2% for 1994. These decreases are attributable to changes in product mix, rate reductions resulting from favorable contract negotiations and synergies and economies of scale resulting from network efficiencies achieved from the assimilation of the IDS Merger and the WilTel Acquisition into the Company's operations. Additionally, through the WilTel Acquisition, the Company has been able to achieve further network efficiencies associated

[45] See pp. 10 and 26 of our initial affidavit and Section III below.

[46] WorldCom Annual Report, 1995, Management's Discussion and Analysis of Financial Condition and Results of Operations, General; emphasis added.

with owning the WilTel nationwide fiber optic cable network rather than leasing similar capacity from other providers at a higher cost.[47]

c) Since the resellers using entrants' inputs are likely to have substantially higher costs than the charges for using WorldCom's services (absent the merger), the entrants are unlikely to constrain WorldCom's ability to raise rates.

48. As explained above, MCI and WorldCom have claimed a number of economies of scale and scope, including reduced access charges, and lower transport costs associated with higher traffic volumes. If these companies can benefit from such savings, i.e., if they could use their networks more intensively or realize lower costs for transport and other inputs via economies of scale, clearly the entrants—much smaller, less extensive than WorldCom—will tend to have substantially higher costs than WorldCom. More specifically, as we explained above, the entrants' less extensive networks and much lower traffic volumes imply that resellers using the entrants' facilities would have higher costs for: (1) offnet transport; (2) leased POPs; (3)switched access; (4) dedicated access; (5) WATS services to originate or terminate calls; (6) directory assistance fees paid to LECs; and (7) payments to process debit card calls. In addition, establishing and managing relationships with multiple vendors would increase the costs to resellers who use the entrants' facilities. Thus, the costs to resellers of using the entrants' networks will be higher than those resellers would have faced from WorldCom (in the absence of the merger). However, publicly available data do not allow us to quantify fully these cost disadvantages.

49. Nevertheless, on the basis of the above discussion and anticipated service differences between WorldCom and the entrants, it seems likely that, if WorldCom were to raise its wholesale rates (because of the change in incentives from merging with MCI) by 10 percent, *e.g.*, from about 5.4 cents per minute[48] to about 6 cents per minute, then entrants could not constrain the price increase. Not only are the resellers' costs for using entrants' inputs likely to be higher even than WorldCom's increased charges, but the entrants' wholesale service package is not likely to be as reliable or extensive as WorldCom's.

50. Note that Dr. Hall's assertion that costs for new networks would be lower than WorldCom's[49] are unsubstantiated and incorrect. Neither Dr. Hall, nor Drs. Carlton and Sider provide the cost estimates needed to substantiate this claim. As explained in the next section, even if the newer technologies' costs are lower than the costs of the fiber systems used by WorldCom when used for data and IP services, that relationship does not

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[47] WorldCom Annual Report, 1995, Year Ended December 31, 1995 Vs. Year Ended December 31, 1994; emphasis added.

[48] The 5.4 cents per minute used in the text includes originating and terminating access charges as well as long distance network service.

[49] According to Dr. Hall, "The new entrants expect to divert their traffic to their much cheaper packet-switched networks." (Declaration of Robert Hall, CC Docket no. 97-211, at 15.)

necessarily hold when the networks are used to supply the switched long-distance services that are relevant here.

d) One size does not fit all: Economies of scope between packet networks and switched long-distance wholesale services are limited.

51. Although telecommunications firms are searching for ways to integrate packet switched networks with the circuit switched networks used for virtually all long-distance and local telephone services, there are currently fundamental incompatibilities between switched networks and the IP facilities planned by Level 3 and used in Qwest's trial IP long-distance service. Economies of scope in providing packet services and voice services remain limited. Although the backbone fiber and transmission electronics can be used to carry both types of traffic, different switches, software and access arrangements are needed. While entrants are in the midst of deploying their packet networks, WorldCom's UUNet is already a major factor in the market and, thus, if the new technologies would allow lower-cost wholesale long-distance services, WorldCom's costs will probably be lower than those of the entrants. The fact that WorldCom does not currently use UUNet to carry voice traffic, strongly suggests that the cost/quality of using the types of networks being built by the entrants is still not competitive with WorldCom's switched network to provide the relevant long-distance services. Further, the lack of compatibility between the two systems is indicated by the cumbersome process needed to use IP networks for completing long-distance calls. As Dr. Harris states:

> "[Qwest's] 7½¢ per minute rate requires a customer to sign up with a credit card and wait two weeks for activation. Once activated, the customer must dial first a local number, obtain a second dial-tone, dial an identification number and a PIN, and then dial the desired number. Not only is this not comparable to traditional 1+ service, but it's a throwback to the interconnection arrangements before the AT&T divestiture and equal access arrangements, and one wonders how consumers might react to these primitive access arrangements. Even then, I note that Qwest's service is currently available in only 9 cities nationwide.[50] It is not possible to make calls originating in other cities using this arrangement. These considerations suggest that the impact of a network such as Qwest's should be highly discounted for the purposes of this proceeding"[51]

52. Note also that the current state of IP technology offers lower voice quality and less reliability, and it is not at all clear that the issues will be resolved in time to allow those planning packet networks to use the same facilities to provide wholesale services needed by resellers. As we understand it, there are two major inherent quality problems: one is

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[50] Information obtained from call to Qwest's customer service on March 2, 1998.

[51] Long Distance Affidavit of Robert G. Harris on behalf of GTE, March 13, 1998, CC Docket No. 97-211 at para 57, pg. 18

latency—i.e., the time lags in communicating speech over IP or packet networks—and the other is the lower fidelity of the voice signal even if there were no delay.[52]

5. Allegations regarding capacity growth do not answer our criticisms.

53. Drs. Carlton and Sider state that "significant segments of the Qwest & IXC networks are now operational and these networks are scheduled to be fully operational by 1999."[53] Dr. Harris shows that Qwest is behind schedule and is not likely to complete its network as soon as implied by Drs. Carlton and Sider.[54] Their argument that the entrants will be "fully operational" surely does not imply that they will be operating on a scale (or providing services) equivalent to WorldCom's. Thus, the entrants will not be able to provide the type of cost-effective nationwide wholesale services that WorldCom has been providing.

54. Drs. Carlton and Sider also state that "significant portions of Qwest and IXC networks have been sold to major telecommunications firms such as GTE and Frontier that will independently operate and market the capacity they own." As a result they criticize Dr. Harris for understating the count for new networks.[55] Our data treat GTE and Frontier as separate networks and, nevertheless show that the merger will have a major impact on HHIs.[56] Note, however, that data on the number of fiber route miles tells only a partial story because the entrants cannot provide a full range of integrated, on-net services to their customers.

55. Drs. Carlton and Sider argue that more capacity will soon be available via expansion by AT&T and Sprint. AT&T "recently announced that it will use new technology from Lucent to double the capacity of its network by the end of 1998 and to increase its capacity "by a factor of 10 over the next couple of years." Sprint is also said to have announced "deployment of new technology from CIENA Corporation that will "immediately increase its current network capacity by 250 percent and eventually 600 percent."(paras 15-16) Increases in capacity by members of the Big Three do not eliminate concerns about the merger. To the contrary, increases in Big Three capacity

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[52]See our initial affidavit at pp. 33-34.

[53] Carlton & Sider, at para 14. They also allege that "...there is no support for suggestions by GTE's experts that deployment of the Qwest and IXC networks have been or are likely to be significantly delayed."(para 32) Whether these networks will be fully operational by 1999 is in doubt because, as we said in our initial affidavit, "Qwest is already behind schedule and its most recent announcements say that construction on its backbone fiber network will not be completed until the third quarter of 1999." According to IXC "[t]he Company has, from time to time, experienced delays with respect to the construction of certain portions of the network expansion and may experience similar delays in the future." It also acknowledged that it "...has not yet obtained all the necessary rights-of-way along the planned routes..." although it believed that "the rights-of-way will be available." See pp.28-30 of our initial affidavit.

[54] See Harris Reply Affidavit, Section IV.

[55] Carlton and Sider, para 14.

[56] See our initial affidavit at para 40 and Exhibit 6.

make it less likely that the entrants will be able to sell capacity to the incumbents to help fill their new networks. Furthermore, we should emphasize that the Big Three IXCs have been less willing to make available at competitive terms the full array of wholesale services that WorldCom has been willing to provide to resellers. In addition, AT&T and Sprint's willingness to offer competitively-priced wholesale services would diminish if the merger is approved because the merged company would exert less competitive pressure in the wholesale market than WorldCom has.

C. Drs. Carlton and Sider's arguments regarding rate averaging are flawed.

56. Drs. Carlton and Sider present a conceptually flawed and factually incorrect argument that rate averaging negates concerns about the entrants' limited geographic coverage.

1. Conceptual flaws

57. According to Drs. Carlton and Sider, rate averaging implies that entry on the most dense routes will keep rates down throughout the country: "Long distance providers can affect competition even if they do not operate facilities in a given area. One factor contributing to this are [sic] FCC rules that require that interexchange carriers charge uniform retail prices for most services throughout the areas where they operate." (para. 23) They also argue that: "Due to uniformity in retail rates, the procompetitive effect of the entry of new networks in high population areas benefits retail consumers both in areas served by the entrants as well in other locations." (para. 24)

58. This argument is conceptually flawed because: (1) entrants will face higher costs in areas where they do not have their own facilities (or low-cost leased facilities); (2) the unregulated entrants are not required to offer uniform wholesale rates and WorldCom makes deaveraged wholesale rates available; (3) entrants can effectively deaverage their retail rates as well; (4) entrants are also unlikely to actively market either wholesale or retail long-distance services at low rates in (offnet) areas where they have high costs; (5) tens of millions of consumers in areas not served by entrants' facilities are, therefore, likely to face higher rates because of the merger; and (6) if entrants did serve substantial traffic in high-cost offnet areas, their relative average nationwide incremental wholesale costs would be higher.

59. FCC interstate retail rate averaging requirements would not necessarily lead entrants to charge the same wholesale rates in areas in which they do not have their own facilities as they charge for areas in the high-volume areas in which they have built their own facilities or secured favorable lease rates. First, as Drs. Carlton and Sider admit, there is no wholesale rate uniformity requirement, and WorldCom, at least, offers wholesale rates that differ from area to area.[57] Second, in areas where entrants must either lease other carriers' capacity or resell other carriers' services, the entrants' costs will be higher than the costs for a firm that uses its own facilities or uses high-capacity long-term leases to serve those areas. Neither of these arrangements is likely to develop quickly in low-

[57] Carlton and Sider, footnote 18.

density areas. Thus, entrants seeking to maximize wholesale profits would have the incentive as well as the ability to charge higher rates for services to areas in which they resold (higher cost) services purchased from other carriers. Therefore, entrants will put little competitive pressure on wholesale service markets in such areas; and, to the extent that the entrants' networks tend to be in the same high-volume routes, as their route maps seem to indicate, they will not directly serve about 20 percent of the population, i.e., about 50 million people located in less dense areas.

60. Further, if entrants were to charge uniform rates throughout the country, those uniform rates would be higher than WorldCom's would be absent the merger. In fact, as we show above, because the entrants lack the scale and scope of WorldCom, their costs are likely to be substantially higher even after the two-year period considered by the Merger Guidelines.

61. An analogous argument applies to retail services. Entrants have higher costs in areas in which they do not have their own facilities. Thus, they have the incentive to focus their competitive efforts on other areas. Further, they can do so regardless of policies regarding interstate service prices. By not marketing to customers in high cost areas in which they have no facilities, they will minimize the number of such customers they serve. In addition, since customers want a complete package of retail intra- and interstate long-distance services, the entrants can effectively deaverage their rates by charging different intrastate rates in different states—i.e., charging higher in-state rates in states in which their costs are higher—thereby raising the overall average (intra- and interstate) toll rate in those states compared to those in states in which they face lower costs and charge lower in-state rates.

62. According to Drs. Carlton and Sider, "[b]ecause the new entrants' networks cover a large portion of the population, they will be a significant factor constraining wholesale rates. (para 24) They argue that this will occur "despite less than universal coverage of their networks" for two reasons: (1) "Competitive constraints on retail rates affect the price that wholesale suppliers can charge. When retail rates are held to the competitive level, perhaps due to entry by vertically-integrated suppliers, wholesale rates also will be constrained" (para 27). (2) "Wholesale rates charged by network suppliers for provision of switched wholesale interexchange services (purchased by switchless resellers) are uniformly applied." (para 27)

63. By hypothesizing, in argument (1), that "wholesale rates also will be constrained" if "retail rates are held to the competitive level...due to entry by vertically-integrated suppliers...," Drs. Carlton and Sider mix wholesale markets with retail markets. That is, entry by "vertically-integrated" firms—i.e., firms who provide their own wholesale services—would constrain wholesale prices; however, entry by pure (non-vertically integrated) retail firms generally would not force wholesale rates to competitive levels. According to Drs. Carlton and Sider's initial affidavit, retail functions consist of marketing, billing and other functions (as opposed to network provisioning). Competition for these retail functions could constrain retail profits; however, such retail competition generally would not constrain the prices that wholesale suppliers can charge

to non-vertically integrated firms—resellers. Further, as we explained in our earlier affidavit, although resellers have begun to undermine the oligopolistic retail pricing by the Big Three vertically-integrated carriers for low-volume customers, these vertically-integrated carriers have not priced low-volume services at competitive levels; and, these carriers have a substantial incentive to keep their wholesale prices as high as possible as one means of keeping their total profits high. Moreover, to the extent that new vertically-integrated entry occurs only in the high-volume regions or only for advanced business services and IP services, it would provide little protection to those in other geographic and product markets.

64. As explained below, the second part of their argument is factually incorrect because WorldCom's own pricing shows that wholesale service can be obtained at deaveraged rates. In any case, even if nationwide wholesale carriers made wholesale services available at uniform rates, resellers who sought to assemble services from regional carriers could find different rates for service within different regions. Furthermore, since, other things equal, it costs firms with limited geographic coverage more to provide nationwide service, they would tend to charge higher average prices than would have been available if WorldCom continued to be an independent wholesaler.

2. Factual errors

a) Retail rates are not uniform.

65. First, Drs. Carlton and Sider incorrectly convey the impression that long-distance rates are uniform throughout the nation. For example, they misleadingly suggest that long-distance calling plans charge the same rates for all parts of the country: "the significance of local competitive conditions to intrastate long-distance calls is diminished in discount calling plans offered by major interexchange carriers. For example, pricing in AT&T's One Rate Plus Plan and Sprint's Sprint Sense Any Time plans do not differentiate between interstate and intrastate calls." (para. 25). In fact, the AT&T One Rate Plus plan and the Sprint Sense Any Time plan cited by Drs. Carlton and Sider are not representative of the plans most people have chosen. For example:

- MCI's plans, which Drs. Carlton and Sider fail to mention, charge different rates for intra- and interstate calls. For example, MCI's 5 cents Sunday rate applies only to interstate calls.
- Similarly, AT&T's normal One Rate plan and the Sprint Sense plan charge different rates for interstate and intrastate calls and their rates for intrastate (intra- and interLATA) calls differ among states.
- In fact, AT&T's One Rate Plus plan is its *only* residential plan that charges the same rates for interstate and intrastate calls. Only a minority of AT&T residential customers subscribe to its One Rate Plus plan.

66. Our analysis of the data from a large sample of 1997 residence toll bills[58] shows:

- The average revenue per minute (ARPM) for domestic interstate calls is generally higher than the ARPM for intrastate, interLATA calls for the Big Three's major calling plans. (For Sprint Sense and MCI One, the interstate ARPM is lower than the intrastate ARPM. This finding is also inconsistent with the allegation of Drs. Carlton and Sider that rates are uniform throughout the country.) The table below shows, for customers subscribing to each major calling plan, the ratio of average interstate domestic to average intrastate, interLATA rates.

Interstate Average Rates Differ from Intrastate Average Rates Under the Most Popular Plans

Plan Name	Percent Difference Between Intrastate InterLATA and Interstate Domestic Rates[59]
AT&T Evening Plus	16%
AT&T One Rate/One Rate International/ One Rate Plus	5%
AT&T Sure Reach Savings/ True Reach	13%
AT&T True Savings	18%
AT&T True USA	10%
AT&T True World Savings	40%
MCI Friends and Family World Savings Plan	40%
MCI Friends and Family/ Friends and Family Fanfares	4%
MCI One	-6%
Sprint Sense	-13%

- The average revenue per minute for intrastate interLATA toll calls differs by substantial amounts among states. Thus, the plans to which most people subscribe clearly do not reflect uniform nationwide rates. The table below shows the percent difference between California intrastate, interLATA ARPMs and the ARPMs for other high-volume states. For example, for customers subscribing to an AT&T "One Rate" plan the ARPM in Florida is 76 percent higher than in California and 58 percent higher in Illinois than in California. These figures also imply that rates in Illinois are lower than rates in Florida under this plan. The variation is even larger for AT&T's True Savings customers. Similarly, MCI Friends and Family ARPMs range from 22 percent above the California ARPM in Illinois to 135 percent higher in Texas.

[58] We used the 1997 data from Market Facts Inc., and PNR and Associates' *Market Share*™ database for about 18,000 residence bills.

[59] The data in this column were calculated by dividing the difference between the intrastate and interstate average revenue per minute (ARPM) by the ARPM for intrastate calls of customers subscribing to the plans indicated in the first column.

Regulatory Requirements Do Not Result in Rate Uniformity Across States

Plan Name	Percent Difference Between California Intrastate InterLATA Rates and Rates in Other High-Volume States			
	FL	IL	NY	TX
AT&T Evening Plus	21%	42%	69%	80%
AT&T One Rate International/ One Rate	76%	58%	82%	71%
AT&T Sure Reach Savings/ True Reach	70%	48%	45%	108%
AT&T True Savings	70%	46%	44%	114%
AT&T True USA	65%	44%	48%	112%
AT&T True World Savings	103%	116%	82%	79%
MCI Friends and Family/ Friends and Family Fanfares	58%	22%	35%	135%
MCI One	26%	22%	21%	53%
Sprint Sense	53%	103%	73%	133%

67. Note that differences between intrastate and interstate rates are not explained by differences in the distance or time–of-day calling patterns between intrastate and interstate calls. When we examined the intra- and interstate evening calls of the same mileage band, we found that:

- AT&T's intrastate, interLATA ARPM was lower than its interstate ARPM in four of the first six mileage bands and higher in the other two.
- MCI's intrastate, interLATA ARPM was lower than its interstate ARPM in five of the first six bands and higher in the other band.
- Sprint's intrastate, interLATA ARPM was lower than its interstate ARPM in four of the first six bands and higher in the other two.

68. Second, Drs. Carlton and Sider admit "...the FCC rules do not apply to interLATA calls that originate and terminate within a state." However, they add that "[t]hese calls... account for a relatively modest share of interLATA calls."[60] To the contrary, the volume of intrastate interLATA calling is substantial: 25 percent of interLATA calls are intrastate, and, as they acknowledge, such calls are not covered by rate averaging requirements. Their claim about the "relatively modest share" of intrastate interLATA calls is also misleading because they ignore the substantial volume of intraLATA calls in many states. In fact, IXCs' intrastate toll revenues came to about $21 billion per year in 1996 according to FCC market share data.[61] Including LECs' intraLATA toll revenues

[60] Carlton and Sider, para. 25. They note that "Harris LD Exhibit 29 indicates that roughly 75 percent of billed interLATA access minutes are interstate."

[61] Long Distance Market Shares First Quarter 1998, June 1998, total intrastate toll revenues from Table 3.3 less LEC toll revenues from Table 3.1.

would raise this figure to over $31 billion per year. Intrastate, intraLATA volumes vary widely among states, but account for a growing portion of IXC toll volumes.

b) Deaveraged wholesale rates are available.

69. WorldCom offers deaveraged wholesale rates; nevertheless, Drs. Carlton and Sider allege that:

> although not mandated by regulation, wholesale rates charged by network suppliers for the provision of switched wholesale interexchange services (purchased by switchless resellers) are uniformly applied. For example, for a given customer, WorldCom's switched interstate, interLATA wholesale service is priced on a per minute basis, regardless of the state of origin and destination and without reference to the distance of the call.[62]

70. In contrast, according to its Chairman:

> Our commitment to the carrier market was reflected in the introduction of an innovative product called Transcend. In an industry first, the product effectively separates local and long distance bill components. This new product provides carrier customers important new tools to target their products in regions with optimum revenue and profit potential.[63]

71. Drs. Carlton and Sider admit, in a footnote that:

> On WorldCom's "Transcend" product, rates are distinguished for calls originating and terminating in areas in which WorldCom uses its own facilities and areas in which it does not. Distinctions are also drawn between interstate and intrastate interLATA calls, to account for access cost differences on such calls.[64]

72. Thus, it is clear that at least WorldCom has wholesale rates that are not "uniformly applied." Such rates promote non-uniform retail rates. To the extent that other carriers offer wholesale rates that pass through state-specific access charges or other cost differences, their wholesale rates may effectively differ from state to state.

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[62] Carlton and Sider, para. 27; emphasis added.

[63] WorldCom Annual Report 1995, Bernard Ebbers' Message to Shareholders, March 1996; emphasis added.

[64] Carlton and Sider, para 27, footnote 18.

III. INCENTIVES

73. Drs. Carlton and Sider accept (or at least do not rebut) the logic of our incentive argument. However, they claim our argument is wrong because: (a) ease of entry removes the incentive to limit wholesale supply; and, (b) MCI's market share losses to resellers have been and would be less than MCI's share of the retail market; thus, the merged company would have a smaller incentive to limit supply than we say. The evidence they provide to support these allegations is flawed because:

- As explained above, they are wrong on entry issues.
- They present incomplete data on MCI's share losses.
- In any case, MCI (like AT&T and Sprint) has been holding back from competing for wholesale.

A. "Alternative wholesale suppliers" will not undermine the incentive (or the ability) of the merged company to raise wholesale rates.

74. Drs. Carlton and Sider allege that "the availability of alternative wholesale suppliers, including new entrants, reduces the incentives of vertically-integrated firms to limit capacity."[65] Neither of the two types of "alternative wholesale suppliers" is likely to undermine MCI/WorldCom's incentives to limit supply of wholesale long-distance services.

1. Entrants and regional carriers are not likely to undermine the incentive of MCI and WorldCom to raise wholesale rates.

75. As explained above, the new entrants and the small regional carriers cited by Drs. Carlton and Sider as providing "wholesale capacity" are likely to be higher-cost and lower-quality (because of the need to rely on multiple sources of supply, rather than an integrated, nationwide wholesale service) than WorldCom; thus, MCI/WorldCom could raise wholesale prices without losing sufficient market share to these suppliers to undermine its incentives. (Note again that Drs. Carlton and Sider incorrectly blur the distinction between entrants' inputs and the nationwide wholesale service provided by WorldCom.)

2. The other nationwide vertically-integrated carriers are not likely to undermine MCI/WorldCom's incentives or ability to raise wholesale prices.

76. The evidence that Drs. Carlton and Sider present that the other vertically-integrated suppliers are likely to limit MCI/WorldCom's ability to raise wholesale prices is misleading. According to Drs. Carlton and Sider, contracts between BOCs and AT&T and Sprint for wholesale, and MCI's provision of "dial around" service through its 10-321 promotions show that vertically-integrated nationwide IXCs "face strong incentives

[65] Carlton and Sider, para 8.

to provide wholesale services."[66] These allegations are misleading. First, Drs. Carlton and Sider say or imply that the contracts are for out-of-region calls. BOCs were not expected to capture much of that traffic; thus such contracts would not have been likely to lead to major losses for AT&T or Sprint. According to the Yankee Group study cited by Drs. Carlton and Sider:

> Neither RBOC that is offering out-of-region long distance has indicated any measure (revenues, subscribers, or anecdotal evidence) of success of their out-of-region initiatives. The Yankee Group believes that these initiatives have been less than successful with respect to capturing market share; however, this is no surprise considering that these companies are operating in non-traditional service markets with little leverage in terms of an established customer base, bundled offerings, or unique pricing plans.[67]

77. Second, it should be emphasized that MCI did not win any of the wholesale contracts mentioned by Drs. Carlton and Sider. As discussed below, this reflects MCI's ambivalent (at best) attitude towards the wholesale market.

78. Third, their argument that MCI's provision of a retail service under a different brand name ("10-321") shows that "MCI today ... faces strong incentives to provide wholesale services" is disingenuous, at best. This offering clearly does not show that MCI has an incentive to provide wholesale services. What it shows is that MCI has an incentive to price discriminate in the retail market with its own new retail brand, and, rather than risk losing its own customers to resellers of MCI wholesale services, MCI has chosen to compete with the "dial around" offerings of true resellers. In fact, by carefully targeting its 10-321 advertisements and pricing directly at AT&T's basic-rate customers,[68] MCI has been able to avoid cannibalizing its own customers and has served a particular customer group without letting resellers cannibalize MCI's customer base.

B. Recent data are inconsistent with Drs. Carlton and Sider's analysis of MCI's expected share loss.

79. According to Drs. Carlton and Sider,

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[66] Carlton and Sider, at para 63; see also paras 62-68.

[67] "RBOCs into Long Distance: The Long Slow Run for 271," The Yankee Group, Telecommunications White Paper Vol. 12, No. 12, December 1997.

[68] The article cited by Drs. Carlton and Sider states that: 10-321 is "aimed directly at AT&T's customer base.... to target the 40% of long distance callers who had never switched carriers since the 1984 breakup of AT&T." Further, according to the article, using this form of price discrimination was evidently a less costly means of capturing market share for MCI "Because many of the target customers were also low spenders, getting them to switch directly to MCI was considered too expensive, Mr. Donoghue said. The average cost of switching a customer is $40; if a customer makes only $5 in long-distance calls...amortizing that $40 would take a long time." ("MCI touts success of 10-321: Claims subsidiary's dial-around ads reaching AT&T's customer base," *Advertising Age,* November 10, 1997, p. 47).